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SENSITIVE
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TAGS: PGOV PREL ENRG EINV SENV KZ
SUBJECT: KAZAKHSTAN: PUSH ON RENEWABLE ENERGY, KYOTO PROTOCOL IS MOTIVATOR

¶1. (U) Sensitive but unclassified. Not for public Internet.

¶2. (SBU) SUMMARY: A Presidential Administration official told us on October 31 that a draft law on renewable energy currently in Parliament is expected to be passed before the end of the year. The Ministry of Energy will create a new subdivision responsible for renewable energy and energy savings. Kazakhstan's concern over energy security and sustainability has led to this increased focus on renewable energy. Kazakhstan has a huge renewable energy capacity in small hydro, wind, and solar, and there are many sectors, especially agriculture in remote areas, where these technologies have ready application. It will take time to renovate and rebuild electricity capacity installed during the Soviet period, so there is now an opportunity to build small renewable energy systems and integrate them into the electrical grid. The Kyoto Protocol is a motivator for action on renewable energy. Kazakhstan is the only Kyoto Protocol Non-Annex I country to subsequently request to join Annex I -- i.e., to join the group of countries subject to binding commitments on emissions. Kazakhstan ranks fourth in the world in carbon emissions per dollar of GDP and wants to improve this ranking. Kazakhstan expects to benefit from the Kyoto Protocol's carbon trading system to get additional investment funds for renewable energy. END SUMMARY.

FORWARD MOVEMENT ON RENEWABLE ENERGY LAW

¶3. (SBU) Presidential Administration Consultant for Energy and Environmental Issues Kanat Baigarin told the Regional Environmental Officer (REO) on October 31 that a draft law on renewable energy now under consideration in Kazakhstan's Parliament is expected to be passed before the end of the year. He promised to give REO a copy as soon as possible. Baigarin said an earlier version of the draft law had included provisions requiring oil and coal companies to buy certificates in renewable energy projects, as is the case in Great Britain. He opposed this scheme, because "it would have destroyed

the power market in Kazakhstan." Forcing oil and coal companies to support their competitors would violate normal market relations, he said, and companies would quickly find a way to get around this requirement, with corruption not far behind. Baigarin believes the government must create an integrated plan for renewable energy in the context of Kazakhstan's total energy balance and support it directly with government financing. When renewable energy reaches one to two percent of total energy output, then Kazakhstan can consider moving to a certificate scheme, he argued.

RENEWABLE ENERGY OPPORTUNITIES ABOUND

¶4. (SBU) Baigarin said the government's concern over energy security and sustainability has led to an increased focus on renewable energy. The Ministry of Energy will soon create a new subdivision responsible for renewable energy and energy savings. Even though things look good for now as far as coal, oil, and natural gas are concerned, the government is looking ahead and sees the need to diversify its energy sector. Baigarin explained that Kazakhstan has a huge renewable energy capacity in small hydro, wind, and solar, and there are many sectors, especially agriculture in remote areas, where these technologies have ready application.

¶5. (SBU) Baigarin said in the past there was no real opportunity to consider renewable energy, but now Kazakhstan has the financial resources, technical capacity, and economic incentives to develop renewable energy in some sectors of the economy. He cited the persistent problem of inadequate power supply in southern Kazakhstan, especially in rural agricultural areas, where wind generators and small hydro stations can complement the electrical grid. To illustrate the existing potential demand, he noted that officials closed down more than 500 small hydro power stations in the 1970s because the government decided they were not efficient and chose instead to rely on large hydropower plants in Kyrgyzstan and Tajikistan. Given the current problems with energy and water

distribution and management in Central Asia, it makes good policy sense from an energy security perspective to reconsider developing renewable energy sources in that region as an additional option.

¶6. (SBU) Baigarin said that Kazakhstan is currently using its entire installed electricity-generating capacity built during the 1970s. The system now needs to be renovated and rebuilt, and that will be very costly and cannot be done over a short period of time. There is now an opportunity to build small renewable energy systems and integrate them into the electrical grid. As an example, Baigarin said companies could build small gas turbine systems in western Kazakhstan that use the gas that is associated with oil production. Baigarin said the drive for renewable energy may actually push small and medium enterprises to participate in building these power systems and tap into alternative power sources. Many communities are at the end of the grid line, and if they could resort to renewable energy sources, this would make their energy supply more stabile and reliable.

KYOTO PROTOCOL MOTIVATES RENEWABLE ENEGRY PUSH

¶7. (SBU) Baigarin, who was Kazakhstan's lead negotiator for the Kyoto Protocol, reminded REO that Kazakhstan has signed but not ratified the Kyoto Protocol. However, he expects Parliament will finally ratify it before the end of the year. The fact that the ratification process has taken so long is a result of the concern among some that Kazakhstan would not be able to meet its annual greenhouse emissions targets if the economy were to develop as planned. (NOTE: While Russia, Belarus, and Ukraine were in Kyoto's Annex I from the start, Kazakhstan, together with the other CIS states, was a Non-Annex I member -- which meant that it initially had no binding commitments on greenhouse gas emissions. Baigaran explained that under "pressure" from its poorer Central Asian neighbors, which believed Kazakhstan had gotten a free ride, but also with a sense of responsibility, Kazakhstan applied to join Annex I in 2000 -- a request that member countries accepted the following year. Kazakhstan is the only Non-Annex I country that has moved to Annex I, he noted. END NOTE.)

¶8. (SBU) Baigarin said that the Kyoto Protocol now has more support in Kazakhstan because it is seen as an excellent opportunity to encourage development of renewable energy resources and promote energy conservation. He explained that, according to UN data, Kazakhstan ranks fourth in the world in carbon emissions per dollar of GDP. Kazakhstan acknowledges this is a problem and wants to improve its ranking. In addition to government plans to fund some renewable energy projects, Kazakhstan expects to benefit from the Kyoto Protocol's carbon trading system. The base year for calculating greenhouse gas emissions under the Protocol is 1990, the year before the collapse of the USSR. Because of the initial steep drop in economic production -- and thus greenhouse gas emissions -- in the CIS states following their independence, Kazakhstan's emissions are even now 35 percent below 1990 levels. Conversely, Japan, for example, is annually exceeding its base year emissions by approximately 15 percent, as a result of which it needs to buy carbon credits from other countries, such as Kazakhstan. Baigarin said the government intends to use the windfall from selling carbon credits to invest in renewable energy projects.

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